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Croatia

Tobacco and Products

Annual

2003

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Report Highlights: Croatian tobacco and cigarette production is stable as are imports and exports. Imports of tobacco from the United States have stabilized between 400 and 600MT per year and are not likely to rise because of third country competition. One likely change that could influence all aspects of tobacco and cigarette trade and production is the expected acquisition of Trvornica Duhana Rovinj (TDR) by BAT. This would open up sales to the Yugoslavian market for TDR. Some Croatian production could also move to Yugoslavia as part of the expected deal. Some industry observers believe that TDR will be a monopoly buyer/producer by the end of 2002.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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Production

Planted tobacco stabilized at 5,800 hectares (ha). An expected increase in area of 10% for 2002 did not occur in part because of higher than expected imports early in the year. Total imports were 4608MT and of that 501MT came from the United States. Production remains concentrated in the Slavonia region and in 2003 production is expected to be over 11,000MT dry weight. Two types of tobacco are grown, Virginia and Burley. Virginia accounts for 90 percent and Burley for 10 percent of acreage. Tobacco processing companies enter into production contracts with 2000 to 2500 farmers annually (2660 farmers in 2002). The majority of farms are small (averaging four hectares) and only 15 percent are considered 'large' and have access to modern production methods. In the past few years, some production technology and expertise has been imported from Italy, including the use of hydroponics for seedlings.

Three of the four Croatian firms are owned by the Tobacco Factory (TDR) in Rovinj. These three firms are: 'Kutjevo' from Kutjevo, 'Virzinija' from Virovitica, 'Duhanprodukt' from Podravina. The fourth tobacco producing company, 'Duhan' from Slatina, is in theory independent but their only market at this time is TDR. Some industry observers believe that TDR will be a monopoly buyer/producer by the end of 2002. In 2000, British American Tobacco bought 500 MT of tobacco from Duhanprodukt but the Croatian Ministry of Agriculture withdrew BAT's 1999 license for cigarette production and has not renewed it.

Production Policy

In the beginning of 2002, the Ministry of Agriculture proposed decreasing state subsidies for several agricultural products including tobacco. The proposal did not pass the Croatian Sabor (Parliament). In 2002, the Croatian Parliament passed new Law on Subsidies in Agriculture (the text can be find at <http://www.nn.hr> in Governmental Gazette NN 87/02,). This law sets the subsidy level at Kn5/kg (\$0.14/kg) for all tobacco.

Trade

Imports of tobacco from the United States have stabilized between 400 and 600MT per year and are not likely to rise because of third country competition. Market demand and production are stabilizing and the imports are expected to stabilize at present levels. Exports may increase if BAT buys TDR and opens the Yugoslavian market to TDR.

In 2002 TDR was paying its suppliers an average price of Kn19.26/kg (\$2.7/kg) with state premium of Kn4.8/kg (\$0.7/kg).

Trade Policy

Tobacco and tobacco products face no quantitative restrictions. Croatia is a member the WTO, EFTA and CEFTA. Membership in these organizations has helped to liberalize trade. Countries with which Croatia has free trade agreements do in some instance have preferential access for tobacco products.

Free access is allowed to EU for following: 24021000 (cigars and cigarillos with tobacco); Macedonia for following: 24013000(tobacco refuse), 24021000(cigars and cigarillos with tobacco), 24029000 (the rest); and Bosnia and Herzegovina for all products in tariff range 2401 – 24039990.

Tariff rate quotas are given to:

. EU

for 2401 TRQ 210MT (duty in said quota 80% from MFN)

for 24011090 TRQ 27.5MT (duty in said quota 0, duty outside quota 80% from MFN)

for 24031090 TRQ (duty in said quota 0, duty outside quota 80% from MFN)

. Hungary

for 240110 TRQ and for 240120 TRQ 290MT (duty in said quota 11.5%)

. Macedonia

for 240110 TRQ 2,500MT (duty in said quota 0, duty outside quota 50% from MFN)

for 240220 TRQ 180MT(duty in said quota 0, duty outside quota 50% from MFN)

Tobacco Tariffs for 2003

Tariff item number	DESCRIPTION	Measure unit	Duty rate (%)
2401	Unmanufactured tobacco; tobacco refuse:		
240110	- tobacco, not steamed/stripped:		
24011010	- - - hot air dried tobacco Virginia type	Kg	20
2.401E+09	- - - -ex. aromatic	Kg	5
24011020	- - - light coloured tobacco, air dried Burley type (including Burley hybrids)	Kg	20
2.401E+09	- - - - ex. aromatic	Kg	5
			5

24011030	- - - light colored tobacco, air dried Maryland type	Kg	
	- - - smoked tobacco:		
			5
24011041	- - - - Kentucky type	Kg	
			5
24011049	- - - - the rest	Kg	
	- - the rest:		
			5
24011050	- - - light color, air dried tobacco	Kg	
			5
24011060	- - - sun dried tobacco, oriental type	Kg	
			5
24011070	- - - dark coloured, air dried tobacco	Kg	
			5
24011080	- - - air dried tobacco	Kg	
			20
24011090	- - - the rest tobacco	Kg	
240120	- tobacco, partially or totally stripped:		
			16,2
24012010	- - - Virginia type air dried tobacco	Kg	
2.401E+09	- - - - ex. aromatic	Kg	5
			16,2
24012020	- - - Burley type, light coloured, air dried tobacco (including Burley hybrids)	Kg	
2.401E+09	- - - - ex. aromatic	Kg	5
			5
24012030	- - - Maryland type, light colored, air dried	Kg	
	- - - smoked tobacco:		
			5
24012041	- - - - Kentucky type	Kg	
			5

24012049	- - - the rest	Kg	
	- - the rest:		
			5
24012050	- - -air dried, light colored tobacco	Kg	
			5
24012060	- - - tobacco dried on sun, oriental type	Kg	
			5
24012070	- - - air dried, dark colored	Kg	
	tobacco		
			5
24012080	- - - air dried tobacco	Kg	
			20
24012090	- - - the rest	Kg	
			20
24013000	- tobacco refuse	Kg	
2402	Cigars, cigarillos and cigarette from tobacco and tobacco substitutes:		
			15
24021000	- cigars and cigarillos with tobacco	1 000 kom	
240220	- cigarette with tobacco:		
			41,8
24022010	- - with content of condiments	1 000 kom	
			41,8
24022090	- - the rest	1 000 kom	
			35
24029000	- the rest	Kg	

CIGARETTES

Production

Cigarette production is increasing and Tvornica Duhana Rovinj (TDR) is trying to reach a production level of 15 million cigarettes (actual production is stable at 14,700 mill pcs. per year). All cigarettes are filter tipped and there are many brands in light and ultra light styles.

Croatia's only cigarette producing company is TDR. TDR owns cigarette plants in Rovinj and Zagreb. They tried to buy a plant in Zadar but British American Tobacco in 1999 bought 81 percent of the Zadar shares. In spite of that, TDR has a monopoly position because the Ministry of Agriculture has not issued a production licence for the Zadar factory and is not approving BAT's cigarette brands as being of high enough quality for release onto the market. After four years of struggling with Ministry and TDR, BAT reportedly considered leaving the Croatian market. BAT currently imports cigarettes from Germany (Dunhill and Lucky Strike in regular and light version) and is paying salaries for 150 workers in Zadar. BAT is believed to have invested \$30 million in the Zadar factory and is willing to invest more if they can get a production license. Some rumors are saying that BAT is moving the regional office from Hungary to Croatia.

TDR in 2002 bought greenfield sites Vojvodina (Yugoslavia) with intention of opening a cigarette factory there. Since Yugoslavia is still waiting with their Tobacco Law TDR stopped construction work on the plant. Yugoslavian politicians are more willing to open the market to BAT and TDR is more and more orientating to purchase of properties in Croatian tourism sector so the rumors that BAT will soon buy TDR's cigarette plant in Rovinj are getting stronger. With BAT's acquisition of TDR's cigarette plant the legal access to the Yugoslavian market would be instant for the Rovinj plant.

Consumption

Consumption is 9.3 billion cigarettes annually and Croatians spend three percent of their income on tobacco. Out of a total population of 4.5 million, Croatia has over one million smokers and only 2 percent of smokers quit smoking each year. Cigarettes account for 95 percent of all tobacco consumption and Light cigarettes are about half of the market. The overall cigarette market generates about \$15 million in annual profits.

Nearly 15 percent of consumption is believed to be served by the black market. Illicit trade is high in part because Croatia has higher prices than surrounding countries, due in part to the structure of the excise tax. Because of black trade Croatian budget is losing between Kn 800 million to Kn1.2 billion per year.

Cigarette retail prices range from Kn9 to Kn17 per pack (\$1.3-\$2.4 per pack). Industry sources believe that VAT and excise taxes make up about 75 percent of the retail price of a pack of cigarettes (one in every eight kuna in Governmental budget comes from cigarette sales).

One third of sales are via specialized companies with their own wholesale and retail networks. The remaining retailers, representing approximately 12,000 stores, are serviced by 150 wholesalers.

Anti-Smoking Measures

In 2002, Croatian TV started with an antismoking campaign initiated by Ministry of health and sponsored by Croatian TV and the Australian Embassy. The campaign ended by the end of 2002.

In November 1999, Croatia implement the Law on restricted use of tobacco products (Official Gazette 128/99).

The Law:

- Prohibits smoking at indoor meetings and other working areas except in those which have sign that smoking is allowed
- Prohibition on selling of cigarettes to persons younger than 18 years
- Prohibition on selling from automatic machines
- Prohibition on advertising tobacco and tobacco products
- Prohibition on smoking in health and education institutions
- Requirement that all cigarette packs have the health warning: Smoking is harmful to health and one of the following warnings:
 - Smoking causes cancer
 - Smoking during pregnancy is dangerous for children
 - Smoking causes heart attacks and strokes
 - Smoking shortens life
- Nicotine and tar contents per cigarette are also required

In the future Croatia will probably comply tobacco legislation with EU legislation, which will result in strict legislation regarding health hazards caused by smoking.

Trade

Foreign brands are 15 percent of the legal cigarette supply and the majority of imports are handled by TDR. The cigarette industry pays and estimated six to seven percent of total taxes in Croatia or about 3.2 billion kuna (\$455 million) per year.

Trade Policy

See trade policy of Tobacco.

Policy

Two main laws cover tobacco products. The Tobacco law (Governmental Gazette 69/99) and the Law on excise taxes for tobacco products (Governmental Gazette 136/02).

According to these two laws, cigarettes are divided into three groups:

- A popular group
- B standard group
- C extra group

- A includes cigarette based on a mixture with at least 60 percent non aromatic, large leaf tobacco (types of Virginia hot air dried, Burly dried in shade) of which at least 25 percent is from lower purchased classes or from their substitutes (tobacco foil or manufactured leaf veins). Cigarettes can be with or without filter and they are packed in soft packs, and are intended primary for the Croatian market.
- B includes cigarettes based on a mixture with at least 60 percent non-aromatic large leaf tobacco (types Virginia, Burley etc.) or their substitutes (tobacco foil or technologically manufactured leaf veins). They are filter tipped and packed in hard packs and are intended primary for the Croatian market.
- C includes all others.

Excise taxes for different groups:

Excise Tax basis is following:

For cigarettes 20 cigarettes in one pck.
For tobacco 1000gr.
For cigars one cigar
For cigarillos 20 cigarillos in pck.

Group AYYY.5.00 kuna
Group BYYY.5.40 kuna
Group CYYY.8.90 kuna

Excise taxes are also paid for:

TobaccoYYY.38.00 kuna
CigarsYYYY..1.10 kuna
CigarillosYYY..4.40 kuna

The above laws also include regulations about the registration of tobacco products, tobacco farmers, tobacco product producers, exporters, importers and the classification and registration of tobacco products.

For the registration of tobacco product, samples are examined and tested (touched, smoked, etcY) by a special commission. It is a subjective procedure.

Labeling Requirement

Cigarette box labels must include:

- product name
- nicotine contents
- tar contents
- producer's name and address
- name and address of importer (for imported cigarettes)
- number of pieces in box, written in Croatian language

Exchange rate on 02/11/03

\$1 = Kn 7.03

PSD Table						
Country	Croatia					
Commodity	Tobacco, Unmfg., Total				(HA)(MT)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Area Planted	5850	5850	6700	6700	0	5800
Beginning Stocks	16230	16230	14705	14705	14705	14705
Farm Sales Weight Prod	13455	13455	14961	14961	0	13282
Dry Weight Production	11575	11575	12870	12870	0	11424
U.S. Leaf Imports	600	600	300	300	0	400
Other Foreign Imports	4200	4200	3100	3100	0	4200
TOTAL Imports	4800	4800	3400	3400	0	4600
TOTAL SUPPLY	32605	32605	30975	30975	14705	30729
Exports	4500	4500	5400	5400	0	4300
Dom. Leaf Consumption	8100	8100	7470	7470	0	7500
U.S. Leaf Dom. Consum.	600	600	300	300	0	400
Other Foreign Consump.	4700	4700	3100	3100	0	4200
TOTAL Dom. Consumption	13400	13400	10870	10870	0	12100
TOTAL Disappearance	17900	17900	16270	16270	0	16400
Ending Stocks	14705	14705	14705	14705	0	14329
TOTAL DISTRIBUTION	32605	32605	30975	30975	0	30729

Export Trade Matrix			
Country	Croatia		
Commodity	Tobacco, Unmfg., Total		
Time period	2001	Units:	2002
Exports for:		MT	1
U.S.	0	U.S.	0
Others		Others	
Switzerland	1445	South African Republic	1373
France	1379	France	919
Egypt	522	Egypt	637
Greece	521	Lebanon	440
Yugoslavia	409	Macedonia	417
Slovakia	340	Yugoslavia	248
Bosnia & Herzegovina	285	Bosnia & Herzegovina	245
Total for Others	4901		4279
Others not Listed	174		136
Grand Total	5075		4415

Import Trade Matrix			
Country	Croatia		
Commodity	Tobacco, Unmfg., Total		
Time period	2001	Units:	2002
Imports for:		MT	1
U.S.	275	U.S.	501
Others		Others	
Malawi	1133	Brazil	1071
Brazil	811	Malawi	1048
Zimbabwe	614	Zimbabwe	924
India	517	Macedonia	773
Switzerland	259		
Total for Others	3334		3816
Others not Listed	209		291
Grand Total	3818		4608

PSD Table						
Country	Croatia					
Commodity	Tobacco, Mfg., Cigarettes				(MIL PCS)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Filter Production	14000	14000	14750	14750	0	14700
Non-Filter Production	0	0	0	0	0	0
TOTAL Production	14000	14000	14750	14750	0	14700
Imports	16	16	20	20	0	20
TOTAL SUPPLY	14016	14016	14770	14770	0	14720
Exports	5650	5650	8000	8000	0	7000
Domestic Consumption	8366	8366	6770	6770	0	7720
TOTAL DISTRIBUTION	14016	14016	14770	14770	0	14720

Export Trade Matrix			
Country	Croatia		
Commodity	Tobacco, Mfg., Cigarettes		
Time period	2001	Units:	2002
Exports for:		MT	1
U.S.	0	U.S.	12
Others		Others	
Bosnia & Herzegovina	3865	Bosnia & Herzegovina	4361
Yugoslavia	2875	Yugoslavia	2111
Slovenia	325	Slovenia	231
Macedonia	193		
Austria			
Total for Others	7258		6703
Others not Listed	131		250

Grand Total	7389		6965
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Import Trade Matrix			
Country	Croatia		
Commodity	Tobacco, Mfg., Cigarettes		
Time period	2001	Units:	2002
Imports for:		MT	1
U.S.	9	U.S.	0
Others		Others	
Liechtenstein	12	United Kingdom	8
United Kingdom	8	Switzerland	6
Germany	5	Germany	4
Total for Others	25		18
Others not Listed	0		5
Grand Total	34		23